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ECONOMIC & MARKET KOMPASS

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MARKETS, ECONOMY AND STRATEGY—

The quarter just ended was remarkable in its volatility. August was the most volatile August in stock market history. Overall trillions of dollars of market value vanished during the quarter, leaving many investors wondering if the freefall would ever stop. Well, we are here to tell you it will stop and you want to be fully invested when it does stop.

Imagine you are shopping for something you really want and one day you notice the item has been put on sale: down 25% from the price you originally saw. The word "bargain" has to come to mind doesn't it? Well, legitimate concerns, coupled with nervous Nellies selling out and short-term "traders" gaming the down swings have combined to put the equity markets worldwide into the bargain category. Emerging markets in particular are looking very cheap even when one factors in lower growth expectations. Remember that word: growth. The USA isn't going away or stop growing and neither are the emerging markets. The Europeans may wish they could "go away", especially the Greeks, but they aren't and their problems, which do affect the entire world, will get solved. As we stated in our September 22 email to everyone, "Today what investors don't understand are the solutions" to current economic problems. Once a clear path is in-place the market will rise.

To put some perspective on things, when we look at "risk assets" like our domestic equity All Cap Multi Style Strategy ("ACMS") , its net total return is even with the S&P 500 Index year to date, and still positive for the one year ended 9/30/11. Also since the market bottom March 2009, ACMS up almost 44% net of all fees. Our domestic stock picking strategy, Large Cap Value, is ahead of the S&P Large Cap Value Index year to date and up almost 38% net since 3/31/09. Even though it has taken its lumps this year (down about 20% net), our Emerging Market Strategy is up 33% net since 3/31/09 (remember for a while we got up to 80% cash in this strategy). Commodities took their first big hit in September as world growth projections slowed and the dollar increased in value (remember that a stronger dollar pushes down commodity prices since fewer dollars buy the same amount of a commodity). Nevertheless, our Commodity Strategy is well ahead of all three major commodity indexes year to date, positive for the one year ended 9/30/11 and up 12% net since 3/31/09. Lastly our Real Estate Strategy is flat year to date (as opposed to down almost 10% for the Dow Jones Real Estate Index), up over 6% net for the one year ended 9/30/11, and up about 26% net since strategy inception 9/30/09.

So what are we going to do with your portfolios? We shall stay fully invested but vigilant about where to position our strategies. We expect market volatility to continue until Europe solves the Portuguese, Italian, Irish, Greek and Spanish problems. We expect US equity market valuations to be low in price-to-earnings perspective and economic growth projections tepid until our 2012 Presidential elections are over.

TAX NOTE —

Remember that due to 2010 tax law changes, your broker's Form 1099/gain-loss statement will be <u>your required source of tax information</u>. We have moved to align our system to what your brokerage firm is using for cost basis and tax lot information but there is no guarantee that our gain/loss reports will match theirs. <u>The law now requires you to rely on your broker's information</u>. So, keep your broker sourced confirmations of trades and monthly statements to match to your broker's Form 1099 in January! Don't you wish our country had a simpler tax system?